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SUBJECT: FRANCE'S AEROSPACE CLUSTER

REF: A. 06 PARIS 7882, B. Paris 1075

¶1. (U) SUMMARY: As part of France's new scientific and innovation policy (see ref a), France embarked on an ambitious program of naming competitiveness clusters throughout the country (ref b). Possibly the most visible of these clusters focuses on aerospace and embedded systems in the Midi-Pyrenees and Aquitaine regions, home to Airbus and Dassault Aviation. Although almost six hundred companies already belong to this grouping named "Aerospace Valley," one of the program's goals is to grow the cluster. Toward this end, the government is offering significant tax incentives to draw firms and institutions to the cluster in addition to central and regional government funding. End Summary.

BACKGROUND

¶2. (U) Toulouse is playing a significant role in the GOF's promotion of competitiveness clusters ("poles de competitivite" in French), combining the efforts of enterprises, research entities, and higher education institutions to develop technologies into products with practical applications. The GOF believes its designation of sixty-six competitiveness clusters (six of which are labeled "global level") provides a partial answer to its industries' declining comparative advantage faced with increased competition from emerging economies (see ref b for more information on the general strategy). Especially aimed at innovative, high value-added industries, such as biotechnology, medicine, and aerospace, the clusters policy seeks to support those sectors that hold the key to remaining a major economic power. Two of the clusters, one specializing in aerospace and another in cancer and other health issues, are based in Toulouse, with aerospace being one of the "global level" clusters.

AEROSPACE CLUSTER

¶3. (U) The GOF selected Midi-Pyrnes and Aquitaine regions, home to Airbus, Toulouse's prestigious engineering schools, and a plethora of Airbus suppliers and other aerospace firms, as one of France's six global-level clusters. Dubbed "Aerospace Valley," the regions boast almost six hundred French and foreign firms. In addition to Airbus, some of the larger groups involved are Alcatel, Dassault Aviation, Siemens, EADS Space Transportation, and Thales. A number of important U.S. aerospace suppliers, as well as U.S. semiconductor company Freescale and Sun Microsystems, are also present. Presided over by Airbus France's president, a Director, three engineers, and a secretary carry out Aerospace Valley's day-to-day operations.

¶4. (U) The French government aims for the cluster to become the

world leader in aerospace and embedded systems, creating 40,000 new jobs in the next twenty years, which would increase the sector's employment by approximately fifty percent. It also hopes to attract more foreign direct investment and stimulate the economy by developing new marketable technologies in the highly competitive aerospace industry. To ensure its competitiveness, the cluster has contracted a French strategic intelligence company, ADIT, to develop an economic intelligence program.

15. (U) The aerospace cluster is scheduled to receive 250 million Euros (USD 325 million) over three years of a total budget of 1.5 billion Euros (USD 1.95 billion) for all clusters (two years remain in this budget cycle), with fifty percent funded by the central government and the other half by the regions. Among the cluster's seventy projects announced, forty have already been selected to receive 57 million Euros (USD 74 million) in central and regional government funding. In addition, the government is granting substantial tax incentives to draw firms and institutions to the cluster. It is offering a hundred percent tax exemption for a business' first three profit-earning years and a fifty percent exemption for the following two. Furthermore, the government is giving small and medium-sized enterprises a twenty-five to fifty percent rebate for employer social charges for employees involved in research and development projects.

16. (U) The cluster's projects include EGNOS/GALILEO, primarily located in Toulouse, which seeks to develop real-time satellite pinpointing for ground vehicles. The MONADE project is creating an inter-agency digital simulation system of prototype aircrafts, satellites, and onboard systems. The BATTALION project seeks to develop lighter batteries for airplanes. French company MTS is developing composite materials for aircraft and space use. Even an American company, Rockwell Collins, has an official project, working with a small French enterprise to develop a device that allows blind

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people navigate with the assistance of Galileo. In addition to these projects, the cluster will build "Aerospace Campus" to bring together the numerous aerospace engineering programs already in Toulouse and house Galileo Industries.

17. (SBU) COMMENT: Fearful of losing its place among economic powers, the French government is seeking a way to ensure that its industries innovate. Its belief that the government should play a role in this process is clearly evident in its clusters policy. The GOF appears to view the aerospace cluster as a means to gain political advantage by supporting its aerospace companies when times are tough at Airbus. In November 2005 following disclosure of Airbus' difficult financial situation and the first leak that Airbus planned to drastically reduce its number of direct suppliers, Prime Minister Dominique de Villepin specifically pledged 50 million Euros (USD 65 million) in supplementary aid to the cluster. Last week, the Prime Minister announced 100 million Euros (USD 130 million) for composites, some of which will probably be funneled through the cluster. Obviously aimed at reassuring French electors in advance of the upcoming Presidential election, even those close to Aerospace Valley do not know if either pledge represents "new" money or if the government is just repackaging old programs for short-term political gain.

18. (SBU) Viewed from the other side, it remains unclear what, if any role, the cluster will play in Airbus' current attempts at restructuring/cost cutting. Still, the regions' strong stake in the success in the cluster may have encouraged their recent moves to attempt to buy into Airbus capital.

19. (SBU) Another issue apparent in this program is a desire to please as many regions as possible, hence the naming of sixty-six clusters throughout France-although only six are labeled "world-class." France's seriousness about advantaging the world-class clusters will become apparent after the latest round of cluster submissions given that the Ile-de-France region (home to Paris and the headquarters of many aerospace offices) has now applied to have its own aerospace cluster.

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